

BASIC TYPES OF CREDIT

Revolving Credit - Open End. . . .

Typically covers most credit cards, revolving charge accounts in retail stores, and lines of credit with lending institutions. Sales or cash advances have finance charges calculated on the unpaid balance or average monthly balance and the consumer has the privilege of paying in installments.

A periodic statement is given showing the periodic rate, annual percentage rate, previous balance, debits and credits during the billing period, present balance, balance upon which finance charges were imposed, minimum payment due, and the date payment is to be received.

Installment Credit - Closed End. . . .

The granting of credit for a sale of merchandise or service or a cash advance loan by a contractual agreement. The cash price or cash advanced plus allowable additional charges such as sales tax, official fees, and authorized credit insurance premiums are the amounts to be financed. The amount financed plus the finance charge is scheduled to be repaid in installments.

The contract must disclose the finance charge rate as an Annual Percentage Rate; the Finance Charge; the amount financed; the total of payments; the number, amount, and timing of installments as well as other information pertaining to the contract.

Closed end transactions can be "precomputed" or "simple interest" accounts. ***"Precomputed"*** accounts have the finance charge included in the total balance due and each payment is subtracted from that balance. A refund by the Rule of 78s is given of unearned finance charges if the account is prepaid in full. See our Brochure on the Rule of 78s - What is it?

A ***"Simple interest"*** account balance is the principal balance and does not include any finance charges or interest. The interest is calculated from payment date to payment date on the unpaid principal balance; the interest is subtracted from the amount of the installment and the amount remaining is subtracted from the principal balance. When a "simple interest" account pays off, the amount due is the principal balance plus interest due on that balance from the date last paid to the date of the payoff. It is important to know which type of an account your credit transaction will be.

WHERE TO SHOP FOR CREDIT

It is important to shop for credit just like you shop for new clothes or a new car. You need to compare the cost of different companies' credit transactions the same as you would compare the cost of a new car.

If you are making a purchase on credit, shop different merchants not only for the best buy for the product but also the best buy for your credit transaction. If you are planning on taking out a loan, shop around to the different types of financial institutions such as banks, credit unions, savings and loans as well as finance companies to find the lowest finance charges for your particular needs.

WHAT TO LOOK FOR

The first question you need to ask in a credit transaction is "What is the Annual Percentage Rate?" The Annual Percentage rate is the cost of your credit transaction expressed as an annual interest rate. The annual percentage rate reflects all types of finance charges that are imposed in the credit transaction.

A credit transaction may have a note rate of 9% plus high prepaid finance charges known as "points" that make the annual percentage rate much higher than the 9% note rate. A company might also verbally quote you an "add-on rate" which is also a rate much lower

than the actual annual percentage rate. A 10% "add-on rate" can result in an annual percentage rate of 18%.

READ BEFORE YOU SIGN

Your creditor is required to give you specific information to help you understand the terms of your agreement. Those required disclosures must be provided clearly and conspicuously.

Take the time to read your contract, do not let the creditor rush you. If there is a provision in the contract you do not understand, ask about it.

In addition, credit insurance must not be a factor in the approval of the extension of credit and you must desire that insurance and voluntarily request the insurance for the premium to be excluded from the finance charge.

The creditor may also try to sell you other types of insurance and/or auto club plans. If you do not want them, tell them so. Never be pressured into accepting a product you do not want. The more products added to a loan or credit sale, the more that credit transaction will cost you.

The credit transaction is legal and binding once it is signed by the debtor/s. A loan secured by the debtor's residence that is not for the purchase of the residence and a home solicitation sale are the only types of credit transactions that have a three day period in which the debtor/s can cancel or rescind the transaction.

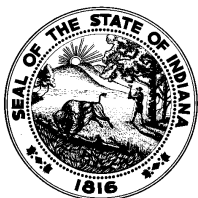
Remember . . .

- ◆ ***Shopping for credit will let you choose the best possible credit terms to suit your particular needs.***
- ◆ ***Use the annual percentage rate to compare credit costs.***
- ◆ ***Read the credit agreement before you sign.***
- ◆ ***Don't be afraid to ask questions if you do not understand the credit agreement.***

The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit Reporting and Scams
Debt Collection Problems?
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
How to Cut the Costs of Credit
Identity Theft
Look Before you Lease
Mortgage Loans
Older Consumers
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Secured Credit Card Scams
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

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SHOPPING FOR CREDIT



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